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February 15, 2006

AGENDA ITEM 4

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: 2005 Cost-Of-Living Report

II. PROGRAM: Actuarial & Employer Services

III. RECOMMENDATION:
Staff recommends that the Benefits and Program Administration Committee approve this Report, and move for adoption by the Board with instructions to file the Report with the Governor and the Legislature.

IV. ANALYSIS:
Attached is the 2005 Cost-of-Living Report required by Section 20233 of the Government Code. The 2005 overall inflation rate was 3.4 percent, slightly higher than a 2.7 percent in 2004. We believe that the Report and the accompanying transmittal letter are self-explanatory.

V. STRATEGIC PLAN:
This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Branch.

VI. RESULTS/COSTS:
See Report.

A handwritten signature in black ink, appearing to read "Alan Milligan".

Alan Milligan, Managing Actuary
Actuarial Office

A handwritten signature in black ink, appearing to read "Ron Seeling".

Ron Seeling, Chief Actuary
Actuarial & Employer Services Branch



Board of Administration
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February 16, 2006

The Honorable Arnold Schwarzenegger
Governor, State of California

The Honorable Members of the California Legislature

The Board of Administration of the California Public Employees' Retirement System (CalPERS) has, pursuant to Government Code Section 20233, completed its twenty-eighth annual evaluation of the extent to which the purpose of Government Code Section 21310 is being achieved. Section 21310 provides:

"It is the purpose of the Legislature in enacting this article to provide for the preservation of the purchasing power of benefits under the Public Employees' Retirement Law through a system of adjustments in benefits based on changes in living costs."

The Board has historically sought, and continues to recommend, legislation to preserve the purchasing power of benefits under the Public Employees' Retirement Law.

Respectfully,

Rob Feckner, President
CalPERS Board of Administration



Public Employees' Retirement System
Actuarial & Employer Services Branch
P.O. Box 942709
Sacramento, CA 94229-2709

2005 Cost-of-Living Report

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2004 Comparative Study of Major Public Employee Retirement Systems

Summary

The actual year-to-year inflation for 2005 was 3.4%. Although this is the largest calendar year increase since 2000, it is still part of a continuing trend of modest inflation that began in 1983. The average inflation for the last 20 years has been 3.0%. Based on current plan provisions and actuarial assumptions, the impact of the current increase in inflation is minimal, and does not affect the future adequacy of retiree benefits.

Introduction

The primary goal of a defined benefit retirement plan is to replace a portion of an individual's income in such a manner as to enable the retiree to meet a portion of his or her living expenses from the plan. To mitigate the effects of inflation on the pension, many retirement systems provide automatic or ad hoc cost-of-living adjustments (COLAs). Without such increases, even at today's moderate rate of inflation, the value of a pension after several years of retirement could be far less than its value at the time of retirement.

This report describes the structure currently in place to help preserve the value of retiree allowances, and the extent to which the value of the allowances has been eroded by inflation. The increases required to restore the original purchasing power of those allowances are presented in Exhibits D, F, and H.

Purpose of the Report

This report is presented in response to Section 20233 of the Public Employees' Retirement Law (PERL) which reads:

"The board shall report to the Governor and the Legislature, not later than December 1 of each year, on the extent to which the purpose of Section 21310 is being achieved under the provisions of this article and Article 2 (commencing with Section 20102) and the amount of supplementary increases in retirement allowances required to meet the objective of preserving the purchasing power of benefits provided by the system. The board shall also determine and report on the increase in the state contribution rate required to provide the supplementary increases for state members, other than school members."

Article 3 of Chapter 13 of the PERL, entitled "Cost-Of-Living Adjustments", Section 21310 states its purpose as follows: "It is the purpose of the Legislature in enacting this article to provide for the preservation of the purchasing power of benefits under the Public Employees' Retirement Law through a system of adjustments in benefits based on changes in living costs."

The intention of this report is to determine the extent to which the purchasing power of benefits has been preserved, and to provide a base of knowledge from which the Governor, the Legislature and others, can make informed decisions.

Description of CalPERS Cost-of-Living Benefit Structure

The basic structure of the retirement cost of living adjustment (COLA) increases at CalPERS includes: annually scheduled cost-of-living increases, ad hoc increases, and purchasing power protection allowance (PPPA) benefit increases.

Annual Cost-of-Living Increases

The Retirement Law provides for the payment of an annual COLA to be paid each May beginning the second year after retirement begins. The COLA increase cannot be greater than the actual national rate of inflation. Currently, State and Schools retiree allowances are limited to a cumulative increase of 2 percent (compounded) annually. Second Tier State Miscellaneous and Second Tier State Industrial retirees and survivors receive an annual COLA of 3 percent, compounded, but not limited by inflation. Contracting agencies provide increases of 2, 3, 4 or 5 percent (also limited to the cumulative increase in the consumer price index).

Ad Hoc Cost-of-Living Increases

In addition to the automatic COLA's, the Legislature has periodically authorized permanent ad hoc COLA's; monthly supplemental payments made when the allowance falls below 75 percent of purchasing power.

The 1-6% ad hoc increase provided for in SB 400 (G.C. 21328) was implemented differently from other ad hoc increases in the past. In other ad-hoc increases, the increase affected the "floor" of protection that was afforded by the PPPA program. The 1-6% ad hoc was different. It provided that the PPPA payments were not to be reduced as a result of this ad hoc. This meant that the pensions paid to retired members who benefited from this ad hoc will always be greater than they would have been had this ad hoc not occurred. There is no possibility that the increase will be "taken away" by the ongoing increases in the PPPA benefit.

Inherent in the above approach is that future increases in the PPPA protection level will not impact the 1-6% ad hoc increase. To be consistent with this approach and hence the intention of the legislature, the supplemental COLA increases required to provide full inflation protection (shown in Exhibits D and F) have not been adjusted to reflect the 1-6% ad hoc increase.

Purchasing Power Protection Allowance (PPPA) Increases

The PPPA benefit is a supplementary cost-of-living benefit provided to retirees when the purchasing power of their benefit falls below minimum levels established by law.

Collectively, these three methods ensure that CalPERS retirees and survivors are receiving a minimum of seventy-five percent (eighty percent for public agency retirees and survivors) of the original benefit at retirement, adjusted for inflation. Stated another way, a member's benefit must first lose twenty-five percent (twenty percent for public agency retirees) of its value at retirement, before it is protected from the full effects of inflation. However, this level of inflation protection is not guaranteed for State and School members since the PPPA benefits payable to those members are limited to 1.1% of accumulated member contributions.

Each of the above methods is summarized in the table below.

Methods in Use to Adjust Allowances

	Annual COLA	Ad Hocs	PPPA
State	2% First Tier 3% Second Tier	Noted in Exhibit C Noted in Exhibit C	75%
Schools	2%	Noted in Exhibit E	75%
Public Agencies	2%, 3%, 4% or 5% depending on the contract	Noted in Exhibit G	80%

Sections of the California Public Employees Retirement Law (PERL) describing the above methods in detail are in the “**Background Information**” section.

Inflation as Measured by the COLA Report

The Consumer Price Index (CPI) released by the U.S. Department of Labor-Bureau of Labor Statistics (BLS) is used as a measure of inflation. The CPI for all Urban Consumers (CPI-U), based upon a 1967 Base of 100 was used in calculating the annual inflation rates used in this report. To get the current year inflation, we subtract last year's index from the current index and divide by last year's number and multiply the result by 100 and add a % sign. Overall, inflation in 2005 was 3.4 percent, (See Exhibit A-1)

Inflation as currently measured is consistent with the method for calculating the regular cost-of-living adjustments (COLA) applied to CalPERS retirement benefits.

The method used in this report is also consistent with the method used to calculate the Purchasing Power Protection Allowance (PPPA) increases. Due to timing considerations, the PPPA increases are calculated using an estimate of

the inflation for the last three months of the calendar year just prior to the increase. However, any difference between the estimate of the inflation and the actual inflation is made up the following year. As such, over any lengthy period, the PPPA increases will accurately track the inflation as measured in this report.

There were no changes in methods since the prior year.

Results

The annual and cumulative rates of inflation from 1966 to the present are shown in Exhibit A-1. Charts illustrating the annual inflation rates, and the average inflation rates from given year to 31-Dec-2005 are presented in Exhibit A-2.

The PPPA benefit payment increases effective 1/1/2006 are shown in Exhibit B-1, and the PPPA benefit payments as a percentage of the total allowance effective 1/1/2006 are shown in Exhibit B-2. Charts illustrating the information in Exhibits B-1 and B-2 are presented in Exhibit B-3.

A table showing the number of retirees and beneficiaries for State, Schools and Public Agencies, years retired, the total COLA increases, and the retained purchasing power is presented in Exhibit I.

Conclusion

The overall inflation rate was 3.4 percent in 2005. With the exception of 1990, when it spiked to 5.4% percent, inflation has remained relatively tame since 1983. The past 20 years, inflation has averaged 3.0%. If this average inflation continues into the future, given an annual COLA of 2% compounded, and no prospective ad-hoc increases, the purchasing power of new retiree benefits would fall to 80% in their 20th year of retirement and 75% in their 27th year of retirement. Given the current plan provisions and the current actuarial assumptions, the system's ability to maintain the purchasing power of members' benefits remains strong.

EXHIBITS

A - J

Exhibit A - I

Increases In The Cost of Living: 1965 - 2005

Year	Calendar Year Average CPI*	Inflation From Prior Year	Cumulative Inflation To 31-Dec-2005	Average Inflation From Given Year To 31-Dec-2005	Value of \$1 After Inflation
1965	94.5	-	519.0%	4.7%	\$0.16
1966	97.2	2.9%	501.9%	4.7%	\$0.17
1967	100.0	2.9%	485.0%	4.8%	\$0.17
1968	104.2	4.2%	461.4%	4.8%	\$0.18
1969	109.8	5.4%	432.8%	4.8%	\$0.19
1970	116.3	5.9%	403.0%	4.7%	\$0.20
1971	121.3	4.3%	382.3%	4.7%	\$0.21
1972	125.3	3.3%	366.9%	4.8%	\$0.21
1973	133.1	6.2%	339.5%	4.7%	\$0.23
1974	147.7	11.0%	296.1%	4.5%	\$0.25
1975	161.2	9.1%	262.9%	4.4%	\$0.28
1976	170.5	5.8%	243.1%	4.3%	\$0.29
1977	181.5	6.5%	222.3%	4.3%	\$0.31
1978	195.4	7.7%	199.4%	4.1%	\$0.33
1979	217.4	11.3%	169.1%	3.9%	\$0.37
1980	246.8	13.5%	137.0%	3.5%	\$0.42
1981	272.4	10.4%	114.8%	3.2%	\$0.47
1982	289.1	6.1%	102.4%	3.1%	\$0.49
1983	298.4	3.2%	96.0%	3.1%	\$0.51
1984	311.1	4.3%	88.0%	3.1%	\$0.53
1985	322.2	3.6%	81.6%	3.0%	\$0.55
1986	328.4	1.9%	78.1%	3.1%	\$0.56
1987	340.4	3.7%	71.9%	3.1%	\$0.58
1988	354.3	4.1%	65.1%	3.0%	\$0.61
1989	371.3	4.8%	57.6%	2.9%	\$0.63
1990	391.4	5.4%	49.5%	2.7%	\$0.67
1991	408.0	4.2%	43.4%	2.6%	\$0.70
1992	420.3	3.0%	39.2%	2.6%	\$0.72
1993	432.7	3.0%	35.2%	2.5%	\$0.74
1994	444.0	2.6%	31.8%	2.5%	\$0.76
1995	456.5	2.8%	28.1%	2.5%	\$0.78
1996	469.9	2.9%	24.5%	2.5%	\$0.80
1997	480.8	2.3%	21.7%	2.5%	\$0.82
1998	488.3	1.6%	19.8%	2.6%	\$0.83
1999	499.0	2.2%	17.2%	2.7%	\$0.85
2000	515.8	3.4%	13.4%	2.5%	\$0.88
2001	530.4	2.8%	10.3%	2.5%	\$0.91
2002	538.8	1.6%	8.6%	2.8%	\$0.92
2003	551.1	2.3%	6.2%	3.0%	\$0.94
2004	565.8	2.7%	3.4%	3.4%	\$0.97
2005	585.0	3.4%	-	-	\$1.00

* CPI = Consumer Price Index For All Urban Consumers (base period: 1967 = 100)

Source: U.S. Department of Labor - Bureau of Labor Statistics

Exhibit A - 2

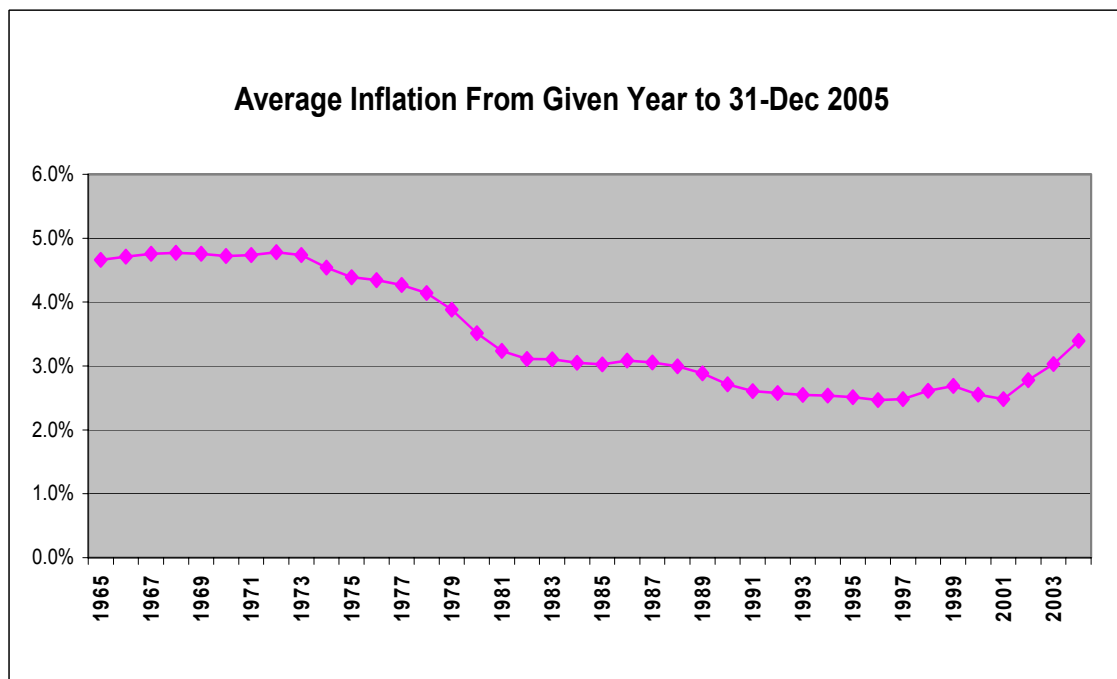
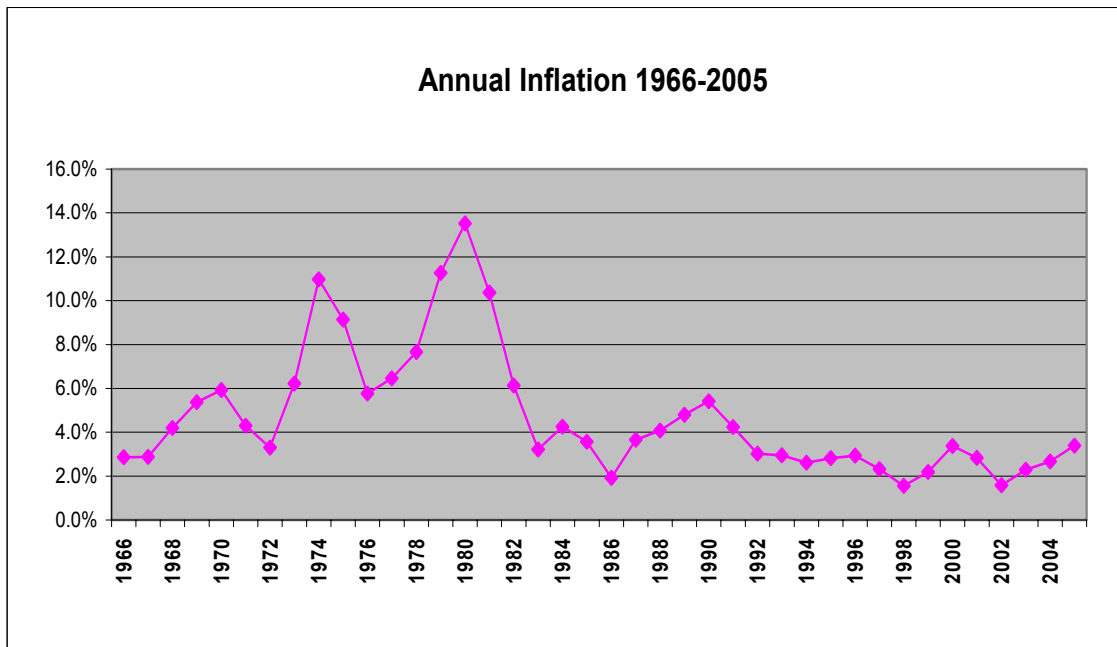


Exhibit B-1

2006 PPPA Cost-of-Living Benefit Percentage Increases (Increases Apply to the Total Allowance excluding previous PPPA adjustments)

Year Of Retirement	State Retirees 2% COLA	School Retirees	Contracting Agencies Retirees	
			High (2% only)	Low (5% only)
1965 or Before	50.9%	59.9%	129.2%	0.0%
1966	55.3%	63.8%	127.3%	0.0%
1967	57.6%	64.5%	125.4%	0.0%
1968	57.6%	64.5%	121.0%	0.0%
1969	57.2%	64.1%	113.9%	0.0%
1970	56.3%	63.0%	105.7%	0.0%
1971	55.9%	62.7%	101.0%	0.0%
1972	56.6%	63.4%	98.5%	0.0%
1973	55.3%	62.0%	90.9%	0.0%
1974	52.7%	59.6%	75.4%	0.0%
1975	44.8%	53.7%	63.9%	0.0%
1976	42.6%	48.2%	58.1%	0.0%
1977	36.6%	42.0%	51.5%	0.0%
1978	29.3%	34.4%	43.4%	0.0%
1979	18.5%	23.4%	31.6%	0.0%
1980	6.5%	10.8%	18.2%	0.0%
1981	2.3%	2.3%	9.1%	0.0%
1982	0.0%	0.0%	5.0%	0.0%
1983	0.0%	0.0%	3.8%	0.0%
1984	0.0%	0.0%	1.5%	0.0%
1985	0.0%	0.0%	0.0%	0.0%
1986	0.0%	0.0%	0.0%	0.0%
1987	0.0%	0.0%	0.0%	0.0%
1988	0.0%	0.0%	0.0%	0.0%
1989	0.0%	0.0%	0.0%	0.0%
1990	0.0%	0.0%	0.0%	0.0%
1991	0.0%	0.0%	0.0%	0.0%
1992	0.0%	0.0%	0.0%	0.0%
1993	0.0%	0.0%	0.0%	0.0%
1994	0.0%	0.0%	0.0%	0.0%
1995	0.0%	0.0%	0.0%	0.0%
1996	0.0%	0.0%	0.0%	0.0%
1997	0.0%	0.0%	0.0%	0.0%
1998	0.0%	0.0%	0.0%	0.0%
1999	0.0%	0.0%	0.0%	0.0%
2000	0.0%	0.0%	0.0%	0.0%
2001	0.0%	0.0%	0.0%	0.0%
2002	0.0%	0.0%	0.0%	0.0%
2003	0.0%	0.0%	0.0%	0.0%
2004	0.0%	0.0%	0.0%	0.0%
2005	0.0%	0.0%	0.0%	0.0%

The PPPA payments are based upon the average calendar year CPI changes.

Exhibit B-2

2006 PPPA Cost-of-Living Benefit Payments as a % of The Total Allowance Payable (Including the 2006 PPPA)

Year Of Retirement	State Retirees	School	Contracting Agencies Retirees	
	2% COLA	Retirees	High (2% only)	Low (5% only)
1965 or Before	33.7%	37.5%	56.4%	0.0%
1966	35.6%	38.9%	56.0%	0.0%
1967	36.5%	39.2%	55.6%	0.0%
1968	36.5%	39.2%	54.7%	0.0%
1969	36.4%	39.1%	53.3%	0.0%
1970	36.0%	38.7%	51.4%	0.0%
1971	35.9%	38.5%	50.2%	0.0%
1972	36.1%	38.8%	49.6%	0.0%
1973	35.6%	38.3%	47.6%	0.0%
1974	34.5%	37.3%	43.0%	0.0%
1975	30.9%	34.9%	39.0%	0.0%
1976	29.9%	32.5%	36.8%	0.0%
1977	26.8%	29.6%	34.0%	0.0%
1978	22.7%	25.6%	30.2%	0.0%
1979	15.6%	18.9%	24.0%	0.0%
1980	6.1%	9.7%	15.4%	0.0%
1981	2.3%	2.3%	8.4%	0.0%
1982	0.0%	0.0%	4.8%	0.0%
1983	0.0%	0.0%	3.6%	0.0%
1984	0.0%	0.0%	1.5%	0.0%
1985	0.0%	0.0%	0.0%	0.0%
1986	0.0%	0.0%	0.0%	0.0%
1987	0.0%	0.0%	0.0%	0.0%
1988	0.0%	0.0%	0.0%	0.0%
1989	0.0%	0.0%	0.0%	0.0%
1990	0.0%	0.0%	0.0%	0.0%
1991	0.0%	0.0%	0.0%	0.0%
1992	0.0%	0.0%	0.0%	0.0%
1993	0.0%	0.0%	0.0%	0.0%
1994	0.0%	0.0%	0.0%	0.0%
1995	0.0%	0.0%	0.0%	0.0%
1996	0.0%	0.0%	0.0%	0.0%
1997	0.0%	0.0%	0.0%	0.0%
1998	0.0%	0.0%	0.0%	0.0%
1999	0.0%	0.0%	0.0%	0.0%
2000	0.0%	0.0%	0.0%	0.0%
2001	0.0%	0.0%	0.0%	0.0%
2002	0.0%	0.0%	0.0%	0.0%
2003	0.0%	0.0%	0.0%	0.0%
2004	0.0%	0.0%	0.0%	0.0%
2005	0.0%	0.0%	0.0%	0.0%

The PPPA payments are based upon the average calendar year CPI changes.

Exhibit B-3

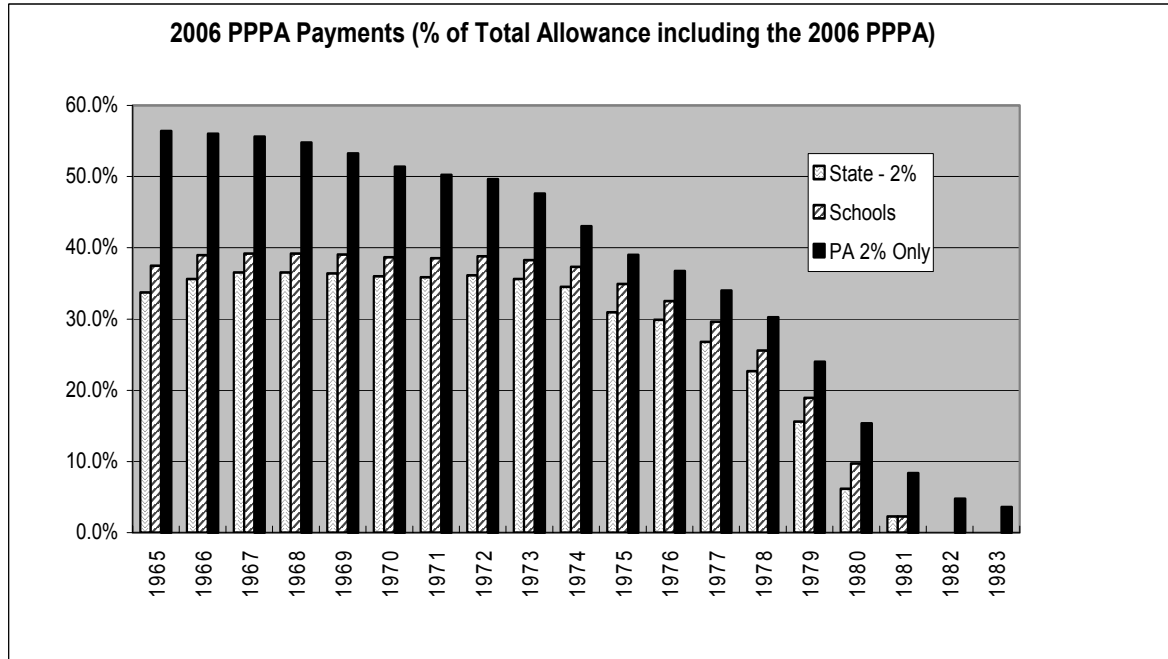
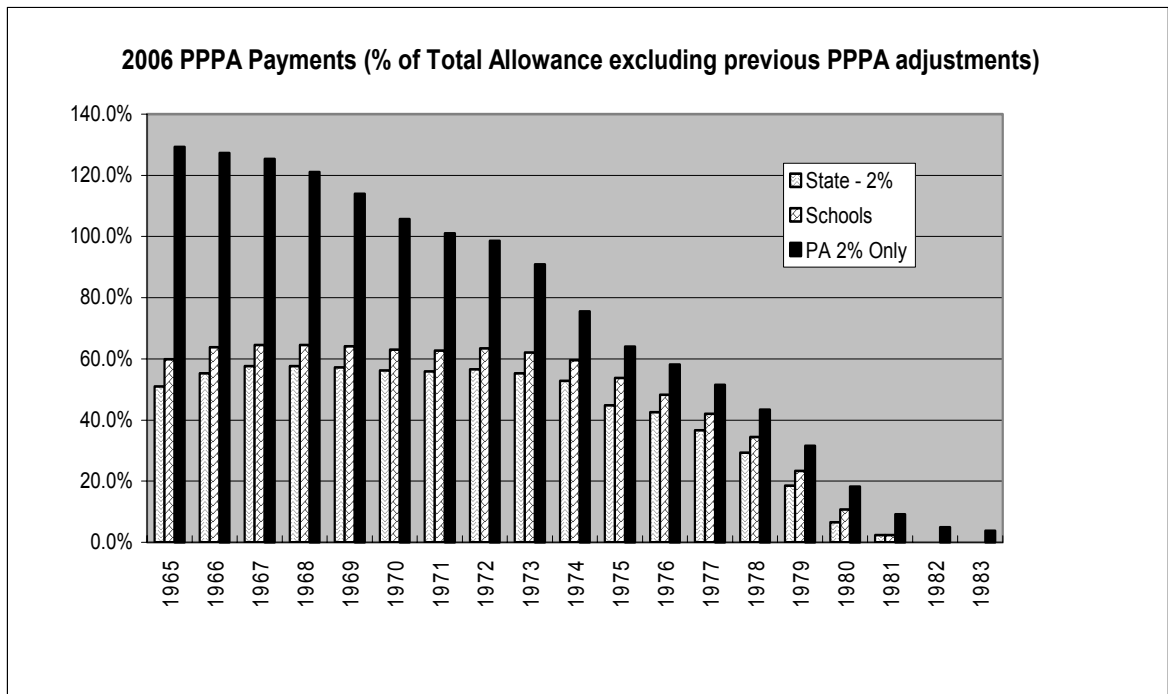


Exhibit C
California Public Employees' Retirement System
Permanent Ad Hoc Cost-of-Living Benefit Increases Provided in the Past'

Retired State Members

Period During Which Retirement Or Death Prior To Retirement Occurred	Section 21251.75 1968 Leg. ²	Section 21222.1 1972 Leg. ²	Section 21222.2 1973 Leg. ²	Section 21222.7 1975 Leg.	Section 21323 1977 Leg. ³	Section 21334 1977 Leg. ⁴	Section 21327 1979 Leg.	Section 21320 1981 Leg.	Total ¹
1965	4%	5%		15%	7%	2.01%		4%	42.6%
1966	2%	5%		14%	6%	2.01%		4%	37.3%
1967		5%		13%	5%	2.01%	1.51%	4%	34.2%
1968		5%		12%	4%	2.01%	1.26%	4%	31.4%
1969		5%		9%	3%	2.01%	1.86%	4%	27.4%
1970		5%		6%	2%	2.01%	2.55%	4%	23.5%
1st half 1971 .			5%	5%	2%	2.01%	1.91%	4%	21.6%
2nd half 1971 .				5%	1%	2.01%	7.05%	4%	20.4%
1972				4%	1%	2.01%	6.76%	4%	19.0%
1973				3%	1%	2.01%	4.45%	4%	15.3%
1st half 1974 .					1%	2.01%	0.47%	4%	7.7%
2nd half 1974 .						2.01%	1.31%	4%	7.5%
1975						2.01%		4%	6.1%
1976								4%	4.0%
1977								4%	4.0%
1978								4%	4.0%
1979								4%	4.0%
1980								4%	4.0%
1981									0.0%
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2002									0.0%
2003									0.0%
2004									0.0%
2005									0.0%

1 Excludes the former IDDA, EPDA, Boatwright, SB400 ad hoc COLA increases and current PPPA programs.

2 Section 21251.75 was repealed in 1972. Sections 21222.1 and 21222.2 were available until 1/1/79.

3 This section was repealed in 1996.

4 The average increase under old Section 21228 was 2.01%. The Section Provided a 3% increase on the first \$400 of monthly benefit with a maximum increase of \$12 per month. This section was repealed in 1996.

Exhibit D
California Public Employees' Retirement System Cost-Of-Living
Benefit Increases¹ Required To Restore 100 percent Of The Initial Purchasing Power
Of Retirement Allowances As Of December 31, 2005
Retired State Members

Period During Which Retirement Or Death Prior To Retirement Occurred	Calendar Year Average CPI	Increase in the Cost-of-Living from the Calendar Year of Retirement or Death to 12/31/2005	Total Permanent Ad Hoc COLA Increases ¹	Total Annual 2% COLA Increases Through 12/31/2005	PPPA Increases on 12/31/2005	Total COLA Increases ¹ Through 12/31/2005	Supplemental COLA ¹ Increases Required ²
1965	94.5	519.2%	42.6%	116.5%	50.9%	365.9%	24.8%
1966	97.2	502.0%	37.3%	112.2%	55.3%	352.5%	24.8%
1967	100.0	485.2%	34.2%	108.1%	57.6%	340.1%	24.8%
1968	104.2	461.6%	31.4%	104.0%	57.6%	322.5%	24.8%
1969	109.8	432.9%	27.4%	100.0%	57.2%	300.5%	24.8%
1970	116.3	403.2%	23.5%	96.1%	56.3%	278.5%	24.8%
1st half 1971 ..	121.3	382.4%	21.6%	92.2%	55.9%	264.4%	24.5%
2nd half 1971 ..	121.3	382.4%	20.4%	92.2%	55.9%	260.8%	25.2%
1972	125.3	367.0%	19.0%	88.5%	56.6%	251.3%	24.8%
1973	133.1	339.7%	15.3%	84.8%	55.3%	230.9%	24.7%
1st half 1974 ..	147.7	296.2%	7.7%	81.1%	52.7%	197.8%	24.8%
2nd half 1974 ..	147.7	296.2%	7.5%	81.1%	52.7%	197.3%	25.0%
1975	161.2	263.0%	6.1%	77.6%	44.8%	172.9%	24.8%
1976	170.5	243.2%	4.0%	74.1%	42.6%	158.2%	24.8%
1977	181.5	222.4%	4.0%	70.7%	36.6%	142.5%	24.8%
1978	195.4	199.5%	4.0%	67.3%	29.3%	125.0%	24.9%
1979	217.4	169.2%	4.0%	64.1%	18.5%	102.2%	24.9%
1980	246.8	137.1%	4.0%	60.8%	6.5%	78.1%	24.9%
1981	272.4	114.8%	0.0%	57.7%	2.3%	61.3%	24.9%
1982	289.1	102.4%	0.0%	54.6%	0.0%	54.6%	23.6%
1983	298.4	96.1%	0.0%	51.6%	0.0%	51.6%	22.7%
1984	311.1	88.1%	0.0%	48.6%	0.0%	48.6%	21.0%
1985	322.2	81.6%	0.0%	45.7%	0.0%	45.7%	19.8%
1986	328.4	78.2%	0.0%	42.8%	0.0%	42.8%	19.9%
1987	340.4	71.9%	0.0%	40.0%	0.0%	40.0%	18.6%
1988	354.3	65.2%	0.0%	37.3%	0.0%	37.3%	16.9%
1989	371.3	57.6%	0.0%	34.6%	0.0%	34.6%	14.6%
1990	391.4	49.5%	0.0%	31.9%	0.0%	31.9%	11.8%
1991	408.0	43.4%	0.0%	29.4%	0.0%	29.4%	9.8%
1992	420.3	39.2%	0.0%	26.8%	0.0%	26.8%	8.9%
1993	432.7	35.2%	0.0%	24.3%	0.0%	24.3%	8.1%
1994	444.0	31.8%	0.0%	21.9%	0.0%	21.9%	7.5%
1995	456.5	28.2%	0.0%	19.5%	0.0%	19.5%	6.8%
1996	469.9	24.5%	0.0%	17.2%	0.0%	17.2%	5.9%
1997	480.8	21.7%	0.0%	14.9%	0.0%	14.9%	5.6%
1998	488.3	19.8%	0.0%	12.6%	0.0%	12.6%	6.0%
1999	499.0	17.3%	0.0%	10.4%	0.0%	10.4%	5.9%
2000	515.8	13.4%	0.0%	8.2%	0.0%	8.2%	4.6%
2001	530.4	10.3%	0.0%	6.1%	0.0%	6.1%	3.8%
2002	538.8	8.6%	0.0%	4.0%	0.0%	4.0%	4.2%
2003	551.1	6.2%	0.0%	2.0%	0.0%	2.0%	4.0%
2004	565.8	3.4%	0.0%	0.0%	0.0%	0.0%	3.3%
2005	585.2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

1 To be consistent with the legislature intention when SB400 was enacted, 1% to 6% Ad Hoc COLA increases are not reflected in the figures shown above.

2 Since PPPA payments for the current calendar year were effective on January 1st, PPPA factors were computed based on an **estimated** CPI of the immediately preceding calendar year. This may result in the **maximum** Supplemental COLA Increases Required (shown in the last column of the above table) as a percentage greater than or less than 25% (for State and Schools retirees and survivors).

Exhibit E
California Public Employees' Retirement System
Permanent Ad Hoc Cost-of Living Benefit Increases Provided in the Past¹

Retired School Members

Period During Which Retirement Or Death Prior To Retirement Occurred	Section 21251.75 1968 Leg. ²	Section 21222.1 1972 Leg. ²	Section 21222.2 1973 Leg. ²	Section 21321 ³ 1978 Leg.	Section 21324 ³ 1978 Leg.	Section 21328 ³ 1979 Leg.	Total ¹
1965	4%	5%		15%	7%		34.4%
1966	2%	5%		14%	6%	0.62%	30.2%
1967		5%		13%	5%	3.21%	28.6%
1968		5%		12%	4%	2.97%	25.9%
1969		5%		9%	3%	3.57%	22.1%
1970		5%		6%	2%	4.26%	18.4%
1st half 1971 .			5%	5%	2%	3.62%	16.5%
2nd half 1971 .				5%	1%	8.86%	15.4%
1972				4%	1%	8.57%	14.0%
1973				3%	1%	6.22%	10.5%
1st half 1974 .					1%	2.16%	3.2%
2nd half 1974 .						3.00%	3.0%
1975							0.0%
1976							0.0%
1977							0.0%
1978							0.0%
1979							0.0%
1980							0.0%
1981							0.0%
1982							0.0%
1983							0.0%
1984							0.0%
1985							0.0%
1986							0.0%
1987							0.0%
1988							0.0%
1989							0.0%
1990							0.0%
1991							0.0%
1992							0.0%
1993							0.0%
1994							0.0%
1995							0.0%
1996							0.0%
1997							0.0%
1998							0.0%
1999							0.0%
2000							0.0%
2001							0.0%
2002							0.0%
2003							0.0%
2004							0.0%
2005							0.0%

¹ Excludes the former IDDA, EPDA, Boatwright, SB400 ad hoc COLA increases and current PPPA programs.

² Section 21251.75 was repealed in 1972. Sections 21222.1 and 21222.2 were available until 1/1/79.

³ This section was repealed in 1996.

Exhibit F
California Public Employees' Retirement System Cost-Of-Living
Benefit Increases¹ Required To Restore 100 percent Of The Initial Purchasing Power
Of Retirement Allowances As Of December 31, 2005

Retired School Members

Period During Which Retirement Or Death Prior To Retirement Occurred	Calendar Year Average CPI	Increase in the Cost-of-Living from the Calendar Year of Retirement or Death to 12/31/2005	Total Permanent Ad Hoc COLA Increases ¹	Total Annual 2% COLA Increases Through 12/31/2005	PPPA Increases on 12/31/2005	Total COLA Increases ¹ Through 12/31/2005	Supplemental COLA ¹ Increases Required ²
1965	94.5	519.2%	34.4%	116.5%	59.9%	365.3%	24.9%
1966	97.2	502.0%	30.2%	112.2%	63.8%	352.6%	24.8%
1967	100.0	485.2%	28.6%	108.1%	64.5%	340.2%	24.8%
1968	104.2	461.6%	25.9%	104.0%	64.5%	322.5%	24.8%
1969	109.8	432.9%	22.1%	100.0%	64.1%	300.7%	24.8%
1970	116.3	403.2%	18.4%	96.1%	63.0%	278.5%	24.8%
1st half 1971 ..	121.3	382.4%	16.5%	92.2%	62.7%	264.3%	24.5%
2nd half 1971 ..	121.3	382.4%	15.4%	92.2%	62.7%	260.9%	25.2%
1972	125.3	367.0%	14.0%	88.5%	63.4%	251.1%	24.8%
1973	133.1	339.7%	10.5%	84.8%	62.0%	230.8%	24.8%
1st half 1974 ..	147.7	296.2%	3.2%	81.1%	59.6%	198.3%	24.7%
2nd half 1974 ..	147.7	296.2%	3.0%	81.1%	59.6%	197.7%	24.9%
1975	161.2	263.0%	0.0%	77.6%	53.7%	173.0%	24.8%
1976	170.5	243.2%	0.0%	74.1%	48.2%	158.0%	24.8%
1977	181.5	222.4%	0.0%	70.7%	42.0%	142.4%	24.8%
1978	195.4	199.5%	0.0%	67.3%	34.4%	124.9%	24.9%
1979	217.4	169.2%	0.0%	64.1%	23.4%	102.5%	24.8%
1980	246.8	137.1%	0.0%	60.8%	10.8%	78.2%	24.8%
1981	272.4	114.8%	0.0%	57.7%	2.3%	61.3%	24.9%
1982	289.1	102.4%	0.0%	54.6%	0.0%	54.6%	23.6%
1983	298.4	96.1%	0.0%	51.6%	0.0%	51.6%	22.7%
1984	311.1	88.1%	0.0%	48.6%	0.0%	48.6%	21.0%
1985	322.2	81.6%	0.0%	45.7%	0.0%	45.7%	19.8%
1986	328.4	78.2%	0.0%	42.8%	0.0%	42.8%	19.9%
1987	340.4	71.9%	0.0%	40.0%	0.0%	40.0%	18.6%
1988	354.3	65.2%	0.0%	37.3%	0.0%	37.3%	16.9%
1989	371.3	57.6%	0.0%	34.6%	0.0%	34.6%	14.6%
1990	391.4	49.5%	0.0%	31.9%	0.0%	31.9%	11.8%
1991	408.0	43.4%	0.0%	29.4%	0.0%	29.4%	9.8%
1992	420.3	39.2%	0.0%	26.8%	0.0%	26.8%	8.9%
1993	432.7	35.2%	0.0%	24.3%	0.0%	24.3%	8.1%
1994	444.0	31.8%	0.0%	21.9%	0.0%	21.9%	7.5%
1995	456.5	28.2%	0.0%	19.5%	0.0%	19.5%	6.8%
1996	469.9	24.5%	0.0%	17.2%	0.0%	17.2%	5.9%
1997	480.8	21.7%	0.0%	14.9%	0.0%	14.9%	5.6%
1998	488.3	19.8%	0.0%	12.6%	0.0%	12.6%	6.0%
1999	499.0	17.3%	0.0%	10.4%	0.0%	10.4%	5.9%
2000	515.8	13.4%	0.0%	8.2%	0.0%	8.2%	4.6%
2001	530.4	10.3%	0.0%	6.1%	0.0%	6.1%	3.8%
2002	538.8	8.6%	0.0%	4.0%	0.0%	4.0%	4.2%
2003	551.1	6.2%	0.0%	2.0%	0.0%	2.0%	4.0%
2004	565.8	3.4%	0.0%	0.0%	0.0%	0.0%	3.3%
2005	585.2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

1 To be consistent with the legislature intention when SB400 was enacted, 1% to 6% Ad Hoc COLA increases are not reflected in the figures shown above.

2 Since PPPA payments for the current calendar year were effective on January 1st, PPPA factors were computed based on an **estimated** CPI of the immediately preceding calendar year. This may result in the **maximum** Supplemental COLA Increases Required (shown in the last column of the above table) as a percentage greater than or less than 25% (for State and Schools retirees and survivors).

Exhibit G
California Public Employees' Retirement System
Permanent Ad Hoc Cost-of Living Benefit Increases Available to Contracting Agencies¹

Retired Contracting Agency Members

Period During Which Retirement Or Death Prior To Retirement Occurred	Section 21251.75 1968 Leg. ²	Section 21222.1 1972 Leg. ²	Section 21222.2 1973 Leg. ²	Section 21325 1977 Leg.	Section 21326 1977 Leg.	Section 21327 1979 Leg.	Section 21322.0 1983 Leg.	Section 21328 2000 Leg. ³
1965	4%	5%		15%	7%		4.00%	6.00%
1966	2%	5%		14%	6%		4.00%	6.00%
1967		5%		13%	5%	1.51%	4.00%	6.00%
1968		5%		12%	4%	1.26%	4.00%	6.00%
1969		5%		9%	3%	1.86%	4.00%	6.00%
1970		5%		6%	2%	2.55%	4.00%	6.00%
1st half 1971 .			5%	5%	2%	1.91%	4.00%	6.00%
2nd half 1971 .				5%	1%	7.05%	4.00%	6.00%
1972				4%	1%	6.76%	4.00%	6.00%
1973				3%	1%	4.45%	4.00%	6.00%
1st half 1974 .					1%	0.47%	4.00%	6.00%
2nd half 1974 .						1.31%	4.00%	6.00%
1975							4.00%	5.00%
1976							4.00%	5.00%
1977							4.00%	5.00%
1978							4.00%	5.00%
1979							4.00%	5.00%
1980							4.00%	5.00%
1981								5.00%
1982								5.00%
1983								5.00%
1984								5.00%
1985								4.00%
1986								4.00%
1987								4.00%
1988								4.00%
1989								4.00%
1990								3.00%
1991								3.00%
1992								3.00%
1993								3.00%
1994								3.00%
1995								2.00%
1996								2.00%
1997								1.00%
1998								
1999								
2000								
2001								
2002								
2003								
2004								
2005								

1 Excludes the former IDDA, EPDA, Boatwright, and current PPPA programs.

2 Section 21251.75 was repealed in 1972. Sections 21222.1 and 21222.2 were available until 1/1/79.

3 Excluded from the PPPA calculation

Exhibit H
California Public Employees' Retirement System Cost-Of-Living
Benefit Increases¹ Required To Restore 100 percent Of The Initial Purchasing Power
Of Retirement Allowances As Of December 31, 2005 *

Retired Contracting Agency Members

Period During Which Retirement Or Death Prior To Retirement Occurred	Calendar Year Average CPI	Increase in the Cost-of-Living from the Calendar Year of Retirement or Death to 12/31/2005	Total Annual 2% COLA Increases Through 12/31/2005	PPPA Increases on 12/31/2005	Total COLA Increases ¹ Through 12/31/2005	Supplemental COLA ¹ Increases Required ²
1965	94.5	519.2%	116.5%	129.2%	396.2%	19.9%
1966	97.2	502.0%	112.2%	127.3%	382.3%	19.9%
1967	100.0	485.2%	108.1%	125.4%	369.1%	19.8%
1968	104.2	461.6%	104.0%	121.0%	350.8%	19.7%
1969	109.8	432.9%	100.0%	113.9%	327.8%	19.7%
1970	116.3	403.2%	96.1%	105.7%	303.4%	19.8%
1st half 1971 ...	121.3	382.4%	92.2%	101.0%	286.3%	19.9%
2nd half 1971 ...	121.3	382.4%	92.2%	101.0%	286.3%	19.9%
1972	125.3	367.0%	88.5%	98.5%	274.2%	19.9%
1973	133.1	339.7%	84.8%	90.9%	252.8%	19.8%
1st half 1974 ...	147.7	296.2%	81.1%	75.4%	217.6%	19.8%
2nd half 1974 ...	147.7	296.2%	81.1%	75.4%	217.6%	19.8%
1975	161.2	263.0%	77.6%	63.9%	191.1%	19.8%
1976	170.5	243.2%	74.1%	58.1%	175.3%	19.8%
1977	181.5	222.4%	70.7%	51.5%	158.6%	19.8%
1978	195.4	199.5%	67.3%	43.4%	139.9%	19.9%
1979	217.4	169.2%	64.1%	31.6%	116.0%	19.8%
1980	246.8	137.1%	60.8%	18.2%	90.1%	19.8%
1981	272.4	114.8%	57.7%	9.1%	72.1%	19.9%
1982	289.1	102.4%	54.6%	5.0%	62.3%	19.8%
1983	298.4	96.1%	51.6%	3.8%	57.4%	19.7%
1984	311.1	88.1%	48.6%	1.5%	50.8%	19.8%
1985	322.2	81.6%	45.7%	0.0%	45.7%	19.8%
1986	328.4	78.2%	42.8%	0.0%	42.8%	19.9%
1987	340.4	71.9%	40.0%	0.0%	40.0%	18.6%
1988	354.3	65.2%	37.3%	0.0%	37.3%	16.9%
1989	371.3	57.6%	34.6%	0.0%	34.6%	14.6%
1990	391.4	49.5%	31.9%	0.0%	31.9%	11.8%
1991	408.0	43.4%	29.4%	0.0%	29.4%	9.8%
1992	420.3	39.2%	26.8%	0.0%	26.8%	8.9%
1993	432.7	35.2%	24.3%	0.0%	24.3%	8.1%
1994	444.0	31.8%	21.9%	0.0%	21.9%	7.5%
1995	456.5	28.2%	19.5%	0.0%	19.5%	6.8%
1996	469.9	24.5%	17.2%	0.0%	17.2%	5.9%
1997	480.8	21.7%	14.9%	0.0%	14.9%	5.6%
1998	488.3	19.8%	12.6%	0.0%	12.6%	6.0%
1999	499.0	17.3%	10.4%	0.0%	10.4%	5.9%
2000	515.8	13.4%	8.2%	0.0%	8.2%	4.6%
2001	530.4	10.3%	6.1%	0.0%	6.1%	3.8%
2002	538.8	8.6%	4.0%	0.0%	4.0%	4.2%
2003	551.1	6.2%	2.0%	0.0%	2.0%	4.0%
2004	565.8	3.4%	0.0%	0.0%	0.0%	3.3%
2005	585.2	0.0%	0.0%	0.0%	0.0%	0.0%

1 To be consistent with the legislature intention when SB400 was enacted, 1% to 6% Ad Hoc COLA increases are not reflected in the figures shown above.

2 Since PPPA payments for the current calendar year were effective on January 1st, PPPA factors were computed based on an *estimated* CPI of the immediately preceding calendar year. This may result in the *maximum* Supplemental COLA Increases Required (shown in the last column of the above table) as a percentage greater than or less than 20% (for Public Agency retirees and survivors).

Exhibit I

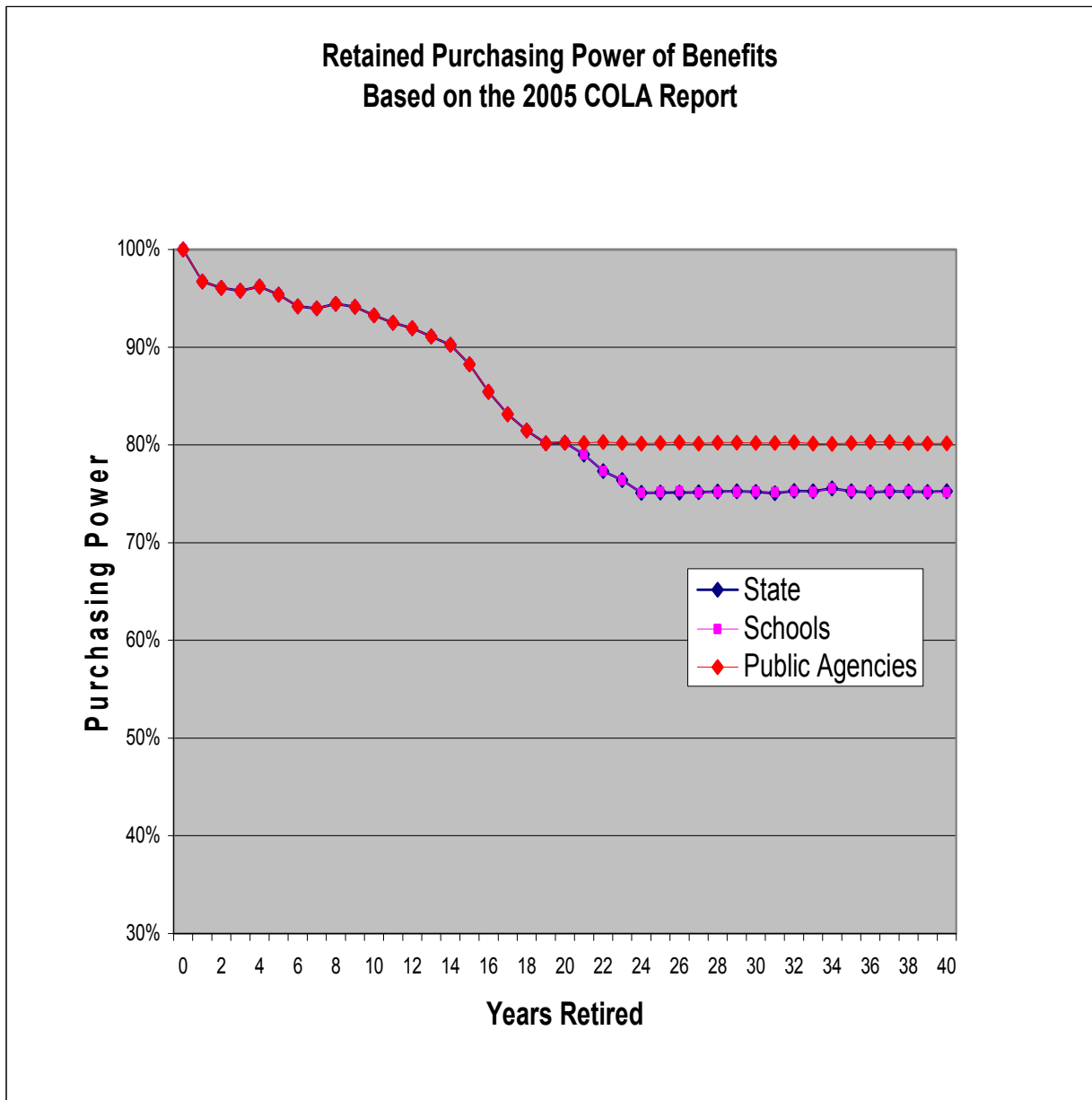
Retained Purchasing Power for State, Schools and Public Agencies
Based on Cost-of-Living increases in the 2005 COLA Report

Year of Retirement	Years Retired	STATE			SHOOLS			PUBLIC AGENCIES		
		Number of Retirees and Beneficiaries ¹	Total COLA Increases	Purchasing Power	Number of Retirees and Beneficiaries ¹	Total COLA Increases	Purchasing Power	Number of Retirees and Beneficiaries ¹	Total COLA Increases	Purchasing Power
1965 & Earlier	39	564	365.9%	75%	175	365.3%	75%	465	396.2%	80%
1966	38	180	352.5%	75%	71	352.6%	75%	149	382.3%	80%
1967	37	269	340.1%	75%	102	340.2%	75%	206	369.1%	80%
1968	36	333	322.5%	75%	169	322.5%	75%	246	350.8%	80%
1969	35	492	300.5%	75%	231	300.7%	75%	328	327.8%	80%
1970	34	597	278.5%	75%	357	278.5%	75%	376	303.4%	80%
1971	33	970	264.4%	76%	500	264.3%	76%	576	286.3%	80%
1972	32	1,138	251.3%	75%	737	251.1%	75%	735	274.2%	80%
1973	31	1,279	230.9%	75%	981	230.8%	75%	980	252.8%	80%
1974	30	1,580	197.3%	75%	1,127	197.7%	75%	1,226	217.6%	80%
1975	29	1,978	172.9%	75%	1,445	173.0%	75%	1,371	191.1%	80%
1976	28	2,551	158.2%	75%	2,153	158.0%	75%	2,229	175.3%	80%
1977	27	2,852	142.5%	75%	2,404	142.4%	75%	2,612	158.6%	80%
1978	26	3,077	125.0%	75%	2,782	124.9%	75%	3,045	139.9%	80%
1979	25	3,125	102.2%	75%	2,903	102.5%	75%	2,870	116.0%	80%
1980	24	4,004	78.1%	75%	3,059	78.2%	75%	3,143	90.1%	80%
1981	23	3,894	61.3%	75%	3,263	61.3%	75%	3,398	72.1%	80%
1982	22	3,943	54.6%	76%	3,182	54.6%	76%	3,430	62.3%	80%
1983	21	5,201	51.6%	77%	5,493	51.6%	77%	3,799	57.4%	80%
1984	20	4,057	48.6%	79%	3,037	48.6%	79%	3,771	50.8%	80%
1985	19	4,585	45.7%	80%	3,638	45.7%	80%	3,990	45.7%	80%
1986	18	4,452	42.8%	80%	3,961	42.8%	80%	4,264	42.8%	80%
1987	17	5,350	40.0%	81%	4,207	40.0%	81%	4,045	40.0%	81%
1988	16	4,683	37.3%	83%	4,416	37.3%	83%	4,415	37.3%	83%
1989	15	4,419	34.6%	85%	4,612	34.6%	85%	4,635	34.6%	85%
1990	14	4,442	31.9%	88%	4,673	31.9%	88%	4,607	31.9%	88%
1991	13	7,812	29.4%	90%	5,329	29.4%	90%	5,012	29.4%	90%
1992	12	6,929	26.8%	91%	5,525	26.8%	91%	5,877	26.8%	91%
1993	11	4,690	24.3%	92%	5,662	24.3%	92%	6,325	24.3%	92%
1994	10	5,824	21.9%	92%	5,575	21.9%	92%	6,608	21.9%	92%
1995	9	5,965	19.5%	93%	5,955	19.5%	93%	6,467	19.5%	93%
1996	8	6,456	17.2%	94%	5,723	17.2%	94%	6,553	17.2%	94%
1997	7	6,876	14.9%	94%	5,843	14.9%	94%	7,302	14.9%	94%
1998	6	6,800	12.6%	94%	6,184	12.6%	94%	7,893	12.6%	94%
1999	5	4,894	10.4%	94%	5,179	10.4%	94%	7,899	10.4%	94%
2000	4	12,734	8.2%	95%	8,870	8.2%	95%	9,177	8.2%	95%
2001	3	9,303	6.1%	96%	6,926	6.1%	96%	8,475	6.1%	96%
2002	2	9,203	4.0%	96%	7,715	4.0%	96%	10,637	4.0%	96%
2003	1	9,038	2.0%	96%	9,800	2.0%	96%	11,416	2.0%	96%
2004 ²	0	4,099	0.0%	97%	3,729	0.0%	97%	4,844	0.0%	97%

1 Number of retirees and beneficiaries are counts of records processed by our valuations. Multiple records may exist for those who have service in more than one coverage group.

2 For 2004, these are retirees and beneficiaries through the first 6 months of 2004.

Exhibit J



The purchasing power of benefits for current State and Schools retirees falls to 75%, 24 years after retirement, and the purchasing power of benefits for current public agency retirees falls to 80%, 19 years after retirement.

BACKGROUND INFORMATION

Background Information

Stats. 1968, Ch. 941, added Section 21310 of the Government Code which states that "It is the purpose of the Legislature in enacting this article to provide for the preservation of the purchasing power of benefits under the Public Employees' Retirement Law through a system of adjustments in benefits based on changes in living costs. "Stats. 1977, Ch. 1186, added Section 21220.1 of the Government Code which was amended and renumbered as Section 20233 by Chapter 388, Statutes of 1981, and further amended by Chapter 83, Statutes of 1991. Section 20233 states that "The Board shall report to the Governor and the Legislature, not later than December 1 of each year, on the extent to which the purpose of Section 21310 is being achieved under the provisions of this article and the amount of supplementary increases in retirement allowances required to meet the objective of preserving the purchasing power of benefits provided by the system. The Board shall also determine and report on the increase in the State contribution rate required to provide the supplementary increases for State members, other than school members."

Article 3, Cost-of-Living Adjustment, consisting of Sections 21310 through 21338 of the Government Code provides cost-of-living benefit increases for the three major categories of retired PERS members (State, school, and contracting agency) and their survivors and beneficiaries. The five types of increases are discussed below.

1. Automatic Annual Benefit Increases (Limited by CPI)

The Public Employees' Retirement Law provides for adjustment of allowances of retired persons or beneficiaries to reflect increases in the cost-of-living as indicated by the Consumer Price Index of the Bureau of Labor Statistics subject to specified limits and conditions. The first such increase is provided in the second calendar year following the calendar year of retirement or death before retirement. The calendar year of retirement, death before retirement, or 1965 if later, is called the base year and the benefit calculated at the time of retirement or death before retirement is called the base allowance. The adjusted monthly allowance is equal to the base allowance multiplied by an adjustment factor which is equal to the ratio obtained by dividing the Consumer Price Index for the immediately preceding year by the Consumer Price Index for the recipient's base year.

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Adjustments:

The cost-of-living adjustments are subject to the following limitations:

- a. No adjustment shall be made for any year for which the adjustment would be less than 1% of the base allowance, and the adjustment for any year shall not exceed 6% of the base allowance.
- b. No monthly allowance in any year shall be less than the base allowance.
- c. No adjustment shall be made in any year in which the actuarial interest rate is less than 4.5%. The actuarial interest rate is currently 7.75%.
- d. No monthly allowance in any year may exceed an amount equal to the base allowance increased by 2% per year compounded for the number of years intervening between the end of the base year and the beginning of the calendar year in which the adjustment is made.

The 2% maximum increase applies to all retired and surviving members except that contracting agencies, may, at their option provide greater annual cost-of-living increases for their retired and surviving members in increments of 1% (from 2% to 5%) subject to the same limitations described above.

NOTE: Some of the provisions, which provided ad hoc benefit increases also, changed the base year. Section 21334 changed the base year for retired State members to the later of 1976 or the calendar year of retirement or death before retirement. Section 21320 further changed the base year for retired State members to the later of 1980 or the calendar year of retirement or death before retirement. Section 21324 changed the base year for retired school members to the later of 1977 or the calendar year of retirement or death before retirement. Section 21328 further changed the base year for school members to calendar year 1978 for annual adjustments of allowances increased by that Section. If a contracting agency adopts Section 21325, Section 21326, or Section 21327, the base year for annual adjustments of allowances increased by those Sections is: 1) the calendar year preceding the year of increase if the increase date is after April 1, or 2) the second calendar year preceding the year of increase if the increase date is on or before April 1. If a contracting agency adopts Section 21322, the base year for annual adjustments of allowances increased by that Section is 1980.

2. Automatic Annual Benefit Increases (Unlimited)

In 1984, the State Legislature approved a negotiated Second Tier of reduced retirement benefits for certain State Miscellaneous members (Chapter 674, Statutes of 1984). The corresponding State Industrial members were added in 1986 (Chapter 199, Statutes of 1986). Those affected include non-represented members and members of bargaining units that have entered into Memoranda of Understanding with the State Department of Personnel Administration. These members can choose between the First Tier plan and the Second Tier plan, which offers lower retirement benefits but eliminates member contributions.

Stats. 1984, Ch. 674, added Section 21330 which states "Notwithstanding anything to the contrary in this article, the monthly allowance of a person subject to Section 21076 shall be adjusted annually beginning with the second calendar year following retirement for time commencing on April 1 and payable on the first day of May. The adjusted monthly allowance shall be equal to the base allowance increased by 3 percent per year compounded for the number of years intervening between the end of the base year and the beginning of the calendar year in which the adjustment is made." Section 21076 contains the benefit formula for the Second Tier Plan.

3. Permanent Ad Hoc Cost-of-Living Benefit Increases

a. Retired State, School, and Contracting Agency Members

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The following benefit increases were applied by law to retired State and school members:

Stats. 1968, Ch. 149, added Section 21251.75 which was repealed by Stats. 1972, Ch. 266. This section stated in part that "Every retirement allowance exclusive of that portion purchased by the member's accumulated additional contributions payable for time commencing on the effective date of this section to or on account of any member who has retired on or prior to December 31, 1966, is hereby increased by a monthly amount which, when added to any other increase in such retirement allowance made by the Legislature at its 1968 Regular Session equals the percentage of the retirement allowance set forth in the following table opposite the period during which the member's retirement became effective:

Period Retirement Became Effective	Percentage
On or before December 31, 1961	12%
12 months ending December 31, 1962	10%
12 months ending December 31, 1963	8%
12 months ending December 31, 1964	6%
12 months ending December 31, 1965	4%
12 months ending December 31, 1966	2%

This section was available to contracting agencies until its repeal.

Stats. 1972, Ch. 1413; amended by Stats. 1977, Ch. 766 added Section 21222.1 which states in part that "In addition to the increase of allowance authorized by and granted pursuant to the provisions of Section 21313 and notwithstanding the limitation in subdivision (b) of Section 21329, the monthly allowance paid with respect to a person retired or a member who died on or before December 31, 1970, shall be adjusted by a 5% increase."

This section applies to contracting agencies that elected to be subject to the provisions of the section by amendment to their contract on or before December 31, 1978.

Stats. 1973, Ch. 1123; amended by Stats. 1977, Ch. 766 added Section 21222.2 which states in part that "In addition to the increase of allowance authorized by and granted pursuant to the provisions of Section 21222 and notwithstanding the limitation in subdivision (b) of Section 21329, the monthly allowance paid with respect to a person retired or a member who died during the period of January 1, 1971 to June 30, 1971, inclusive, shall be adjusted by a 5% increase." This

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section applies to contracting agencies that elected to be subject to the provisions of the section by amendment to their contract on or before December 31, 1978.

Stats. 1999, Ch. 555, added Section 21328 which states in part that "In addition to the increase in allowance authorized and granted pursuant to Section 21313, and notwithstanding the limitation on that increase imposed by this article and subdivision (b) of Section 21337, effective January 1, 2000, the monthly allowance paid with respect to a state or school member who retired or died prior to January 1, 2000, other than an allowance provided by Article 3 (commencing with Section 21570) of Chapter 14, shall be increased by the percentage set forth opposite the year of retirement or death in the following schedule:

Period during which retirement or death occurred:	Percentage:
24 months ending December 31, 1999	0.0%
12 months ending December 31, 1997	1.0%
24 months ending December 31, 1996	2.0%
60 months ending December 31, 1994	3.0%
60 months ending December 31, 1989	4.0%
120 months ending December 31, 1984	5.0%
12 months ending December 31, 1974 or earlier	6.0%

Unlike the other ad hoc increases, this increase will **not** be included in the initial monthly allowance for purposes of determining the PPPA.

Beginning in the year 2000, this section also applies to contracting agencies that elect to be subject to the provisions of the section by amendment to their contract.

b. Retired State and Contracting Agency Members

The following benefit increases were applied by law to retired State members, other than school members, and were available to local agencies by contract amendment:

Stats. 1975, Ch. 175, added Sections 21222.7. (21325 for Contracting Agencies) Section 21325 states in part that "In addition to the increase in allowance authorized by and granted pursuant to the provisions of Section 21313, and notwithstanding the limitation on those increases imposed by this article, the monthly allowance paid with respect to a local member other than a school member, who retired or died prior to January 1, 1974, shall be increased by the

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percentage set forth opposite the period in the following table during which retirement became effective or death occurred:

Period Retirement or Death Occurred	Percentage
On or before December 31, 1965	15%
12 months ending December 31, 1966	14%
12 months ending December 31, 1967	13%
12 months ending December 31, 1968	12%
12 months ending December 31, 1969	9%
12 months ending December 31, 1970	6%
12 months ending December 31, 1971	5%
12 months ending December 31, 1972	4%
12 months ending December 31, 1973	3%

Stats. 1976, Ch. 341, added Section 21323 (21326 for Contracting Agencies) which states in part that "In addition to the increase in allowance authorized by and granted pursuant to the provisions of Section 21313, and notwithstanding the limitation on such increases imposed by this article, the monthly allowance paid with respect to a State member, other than a school member, who retired or died prior to July 1, 1974, shall be increased by the percentage set forth opposite the period in the following table during which retirement became effective or death occurred:

Period Retirement or Death Occurred	Percentage
On or before December 31, 1965	7%
12 months ending December 31, 1966	6%
12 months ending December 31, 1967	5%
12 months ending December 31, 1968	4%
12 months ending December 31, 1969	3%
18 months ending June 30, 1971	2%
36 months ending June 30, 1974	1%

Stats. 1979, Ch. 1036, added Section 21327 which states in part that "In addition to the increase in allowance authorized and granted pursuant to provisions of Section 21313, and notwithstanding the limitation on such increases imposed by this article, effective January 1, 1980, or the date this section becomes applicable to the contracting agency, the monthly allowance paid with respect to a State or local member, other than a school member, who retired or died prior

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to January 1, 1975, shall be increased by the percentage set forth opposite the year of retirement or death in the following schedule:

Period Retirement or Death Occurred	Percentage
12 months ending December 31, 1967	1.51%
12 months ending December 31, 1968	1.26%
12 months ending December 31, 1969	1.86%
12 months ending December 31, 1970	2.55%
6 months ending June 30, 1971	1.91%
6 months ending December 31, 1971	7.05%
12 months ending December 31, 1972	6.76%
12 months ending December 31, 1973	4.45%
6 months ending June 30, 1974	.47%
6 months ending December 31, 1974	1.31%

Stats. 1981, Ch. 132, added Section 21320 which states in part that "In addition to the increase in allowance authorized by and granted pursuant to Section 21313, and notwithstanding the limitation on such increases imposed by this article, the monthly allowance paid with respect to a State member, other than a school member, who retired or died prior to January 1, 1981, shall be increased by 4 percent."

Stats. 1983, Ch. 475, added Section 21322 which states that "(a) Section 21320 shall apply to any contracting agency which makes an election pursuant to subdivision (b). (b) Subdivision (a) shall not apply to any contracting agency unless and until the contracting agency elects to be subject to subdivision (a) by amendment to its contract in the manner prescribed for approval of contracts, or in the case of contracts made after January 1, 1984, by express provision in the contract making the contracting agency subject to the provisions of subdivision (a)."

c. Retired State Members Only

Stats. 1977, Ch. 1186, added Section 21334 which states in part that "In addition to the increase in allowance authorized and granted pursuant to provisions of Section 21313, and notwithstanding the limitation on such increases imposed by this article, effective July 1, 1977, the monthly allowance paid with respect to a State member, other than a school member, who retired or died prior to January 1, 1976, shall be increased by 3% of the first four hundred dollars (\$400) of such allowance; provided, however, that no increase under this section shall exceed twelve dollars (\$12) per month."

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d. Retired School Members

The following three benefit increases were applied by law to retired school members or retired local members formerly employed by a school district or a county superintendent of schools:

Stats. 1978, Ch. 1170, added Sections 21321 and 21324. Section 21321 states in part that "In addition to the increase in allowance authorized by and granted pursuant to the provisions of Section 21313, and notwithstanding the limitation on such increases imposed by this article, the monthly allowance paid with respect to a school member or a local member employed by a school district or a county superintendent of schools, and with respect to a school member, as defined in Section 20019.2, who retired or died prior to January 1, 1974, shall be increased by the percentage set forth opposite the period in the following table during which retirement became effective or death occurred:

Period Retirement or Death Occurred	Percentage
On or before December 31, 1965	15%
12 months ending December 31, 1966	14%
12 months ending December 31, 1967	13%
12 months ending December 31, 1968	12%
12 months ending December 31, 1969	9%
12 months ending December 31, 1970	6%
12 months ending December 31, 1971	5%
12 months ending December 31, 1972	4%
12 months ending December 31, 1973	3%

Section 21324 states in part that "In addition to the increase in allowance authorized by and granted pursuant to the provisions of Section 21313, and notwithstanding the limitation on such increases imposed by this article, the monthly allowance paid with respect to a school member or a local member employed by a school district or a county superintendent of schools, and with respect to a school member, as defined in Section 20019.2, who retired or died prior to July 1, 1974, shall be increased by the percentage set forth opposite the period in the following table during which retirement became effective or death occurred:

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Period Retirement or Death Occurred	Percentage
On or before December 31, 1965	7%
12 months ending December 31, 1966	6%
12 months ending December 31, 1967	5%
12 months ending December 31, 1968	4%
12 months ending December 31, 1969	3%
18 months ending June 30, 1971	2%
36 months ending June 30, 1974	1%

Stats. 1979, Ch. 1036, added Section 21328 which states in part that "In addition to the increase in allowance authorized and granted pursuant to the provisions of Section 21313 and notwithstanding the limitation on such increases imposed by this article, effective January 1, 1980, the monthly allowance paid with respect to a school member or local member employed by a school district or a county superintendent of schools who retired or died prior to July 1, 1975, shall be increased by the percentage set forth opposite the year of retirement or death in the following schedule:

Period Retirement or Death Occurred	Percentage
12 months ending December 31, 1966	.62%
12 months ending December 31, 1967	3.21%
12 months ending December 31, 1968	2.97%
12 months ending December 31, 1969	3.57%
12 months ending December 31, 1970	4.26%
6 months ending June 30, 1971	3.62%
6 months ending December 31, 1971	8.86%
12 months ending December 31, 1972	8.57%
12 months ending December 31, 1973	6.22%
6 months ending June 30, 1974	2.16%
6 months ending December 31, 1974	3.00%

4. The Former Boatwright Benefit

Stats. 1980, Ch. 1244, added and repealed Section 21231, which required the transfer of all funds in the reserve for deficiencies maintained in the Public Employees' Retirement Fund in excess of 2% of its total assets, for purposes of quarterly increases, as specified by the Board of Administration of the Public Employees' Retirement System, in the monthly allowances from October 1, 1980, through September 30, 1982, whenever the Board determined that sufficient funds exist for this purpose. Section 21231 was to remain in effect only

until January 1, 1983, and was to be repealed as of such date, unless a later enacted statute deleted or extended its provisions to a later date.

"21231. (a) The board shall transfer an amount of the reserve for deficiencies retained in the retirement fund pursuant to Section 20203 which exceeds 2 percent of the total assets of the retirement fund into a special account which shall be used for the sole purpose of providing quarterly increases from October 1, 1980, through September 30, 1982, as specified by subdivision (d), in the monthly allowance of every retired person or survivor or beneficiary of a State or local member or retired person, who was eligible to receive any allowance on December 31, 1979, notwithstanding the limitations on such increases imposed by this article and in addition to any other adjustment made pursuant to this article.

(b) The amount specified in subdivision (a) is hereby appropriated to the board without regard to fiscal years. Whenever the board determines that there are sufficient funds in the special account created pursuant to subdivision (a), the board shall apply such funds to the increases authorized by this section. If the funds in the special account are not sufficient to pay the increases prescribed in subdivision (d), the board shall proportionately reduce all payments. All funds remaining in the special account on January 1, 1983 shall be transferred back to the reserve for deficiencies.

(c) The board shall inform each recipient of benefits under subdivision (a) that the increases are not cumulative and shall not be included in their base allowance and may be available for only a limited period of time.

(d) The total quarterly increases shall be 10 percent of the quarterly allowance payable to an annuitant or eligible survivor or beneficiary on October 1, 1980. The board, on October 1, 1980 and, upon the commencement of each quarter thereafter, shall pay the benefit provided by this section for the succeeding quarter."

Stats. 1982, Ch. 330, added Section 21336, which stated: "(a) The board shall transfer the sum of one hundred thirty million dollars (\$130,000,000) from the reserve for deficiencies retained in the retirement fund pursuant to Section 20174 into a special account which is appropriated to the board without regard to fiscal years, for use for the sole purpose of providing quarterly increases from October 1, 1982, through September 30, 1984, as specified in subdivision (d), in the monthly allowance of every retired person or survivor or beneficiary of a State or local member or retired person, who was eligible to receive any allowance on December 31, 1979, or who receives a benefit as a result of a

retired member who was eligible to receive an allowance on December 31, 1979, notwithstanding the limitations on those increases imposed by this article and in addition to any other adjustment made pursuant to this article.

(b) Whenever the board determines that there are sufficient funds in the special account created pursuant to subdivision (a), the board shall apply those funds to the increases authorized by this section. If the funds in the special account are not sufficient to pay the increases prescribed in subdivision (d), the board shall proportionately reduce all payments.

(c) The board shall inform each recipient of benefits under subdivision (a) that the increases are not cumulative and shall not be included in their base allowance and may be available for only a limited period of time.

(d) The total quarterly increases, payable for the period from October 1, 1982, to September 30, 1984, shall be 10 percent of the quarterly allowance payable to an annuitant or eligible survivor or beneficiary on October 1, 1980. The board, on October 1, 1982, and, upon the commencement of each such quarter thereafter, shall pay the benefit provided by this section for the succeeding quarter."

5. Supplemental Cost-of-Living Increases

AB 702 also repealed statutes authorizing the Investment Dividend Disbursement (IDDA) and Extraordinary Performance Dividend Account (EPDA) programs and replaced them with a new Purchasing Power Protection Allowance (PPPA).

a. The Former IDDA Benefit

This program was introduced in Government Code Section 21235. It was revised by amendments to this section and by the addition of Government Code Section 21237. These statutes are included below.

"21235. (a) The board shall establish an Investment Dividend Disbursement Account in the retirement fund consisting of that amount of the earnings of the retirement fund which remains after the sequential application of Sections 20173, 20174, and 20799. The board shall establish in the retirement fund such Purchasing Power Accounts, based on relative purchasing power, as the board deems necessary, which Purchasing Power Accounts shall consist of the amount of earnings of the retirement fund determined pursuant to Section 21237.

(b) The Investment Dividend Disbursement Account may be utilized, as specified in subdivision (e), to increase all monthly allowances paid by the system to an amount equal to a maximum of 75 percent of the purchasing power, as determined by the board, of the initial monthly allowances that were received by every retired person or survivor or beneficiary of a State, school or local member or retired person who was eligible to receive any allowance at the end of each fiscal year. If sufficient funds are not available within a Purchasing Power Account to adjust allowances to a maximum of 75 percent of purchasing power, the board may transfer funds maintained in the Investment Dividend Disbursement Account to the Purchasing Power Account to provide for the increases authorized by this section. If sufficient funds are not available in any particular Purchasing Power Accounts to adjust allowances to a maximum of 75 percent of purchasing power, the board may adjust allowances to eligible recipients by a lesser amount. The board may, for reasons of insufficient funds, determine that no increase under this section shall be made.

(c) The amount specified in subdivision (a) is hereby appropriated from the Investment Dividend Disbursement Account and from such Purchasing Power Accounts as have been established to the board without regard to fiscal years. Whenever the board determines that there are sufficient funds the board shall apply those funds to the increases authorized by this section.

(d) The board shall inform each recipient of benefits under subdivision (b) that the increases are not cumulative, not part of the base retirement allowance, and may be available for only a limited period of time and that the board may discontinue the increases.

(e) The board, on January 1, 1984, and, upon the commencement of each quarter thereafter, shall pay the benefit provided by this section for the succeeding quarter."

Stats. 1982, Ch. 671, added Section 21236 to the Government Code

"21236. (a) The board shall pay, on October 1, 1984, and at the beginning of each succeeding calendar year, from any funds in a Purchasing Power Account not then needed for the purposes of Section 21235, the amount required for the purposes of this section, which is appropriated to the board without regard to fiscal years, for use for the sole purpose of providing quarterly increases as specified in subdivision (d) in the monthly allowance of every person who was eligible to receive the 10 percent quarterly increase provided by Section 21232 on September 30, 1984.

(b) Whenever the board determines that there are sufficient funds in a Purchasing Power Account, the board shall apply those funds to the increases authorized by this section. If the funds in a Purchasing Power Account are not sufficient to pay the increases prescribed in subdivision (d), the board shall proportionally reduce all payments.

(c) The board shall inform each recipient of benefits under subdivision (a) that the increases are not cumulative and shall not be included in their base allowance and may be available for only a limited time.

(d) The total quarterly increases payable shall be the difference between the July 1, 1984, 10 percent quarterly payment under Section 21336 and the amount payable under Section 21235 at the time a payment under this section would be made. Whenever the amount payable under Section 21235 is equal to or greater than the amount payable under Section 21336 on July 1, 1984, there shall be no amount payable under this section." These statutes, authorizing the Former Boatwright Benefit, were repealed by AB 702 (statutes of 1991, Ch. 83), effective June 30, 1991."

Stats. 1985, Ch. 1495, added Section 21237 to the Government Code

"21237. (a) Notwithstanding any other provision of this part, effective January 1, 1986, the Investment Dividend Disbursement Account shall consist of an amount not to exceed the amount of the funds transferred from the Reserve for Deficiencies to the Investment Dividend Disbursement Account on June 30, 1983, less the amount of investment earnings attributable to member accounts for fiscal year 1982-83, plus future account earnings. The board shall annually credit interest to the account at the same crediting rate used to credit retired member reserves. The board may utilize the earnings on the account attributable to the period from June 30, 1983 through June 30, 1985, to credit contributions of members in the retirement fund. That additional interest crediting shall not exceed one percent of the balances in member accounts. Transfers authorized by the board pursuant to subdivision (b) of Section 21235 shall reduce the maximum allowable account balance by the amount transferred.

(b) All other funds available pursuant to Section 21235 shall be retained in Purchasing Power Accounts. The board shall annually transfer from the Purchasing Power Accounts any funds in excess of the amounts disbursed pursuant to Section 21235 and 21236 in the four previous fiscal years, as provided in subdivision (c). Of the amount so transferred, an amount not to exceed the amount disbursed from the Purchasing Power Accounts in the immediately preceding fiscal year shall be transferred to the appropriate retired

member accounts, as determined by the board; and the residual amount shall be transferred to the Extraordinary Performance Dividend Account.

(c) The board shall annually determine, pursuant to subdivision (c) of Section 21311, the extent to which the purchasing power of benefits provided by the system has decreased. The board shall annually transfer from the Purchasing Power Accounts, as provided in subdivision (b), any funds in excess of those disbursed pursuant to Sections 21235 and 21236 for the four previous fiscal years."

b. The Former EPDA Benefit

This program was introduced in Government Code Section 21238.

Stats. 1988, Ch. 1356, added Government Code Section 21238

"21238. (a) The board shall establish an Extraordinary Performance Dividend Account in the Retirement Fund consisting of the amount of earnings of the Retirement Fund transferred from the Purchasing Power Accounts pursuant to Section 21237.

(b) The board shall from time to time on or after January 1, 1991, but only in a fiscal year in which the purchasing power of all persons receiving payments from the Purchasing Power Accounts is 75 percent, disburse, not more frequently than quarterly, extraordinary performance dividend payments to those retired persons and those survivors and beneficiaries of State, school and local members and retired persons whose allowances, after applying the annual cost-of-living adjustments and all other increases in allowances required or authorized by this part, have the lowest purchasing power percentage, based on the amount that would be paid had the original allowance been increased by increases in the Consumer Price Index, as defined by subdivision (c) of Section 21311, increasing those allowances to a common minimum purchasing power level. The payments shall be paid by a separate identifiable warrant.

(c) The amount specified in subdivision (a) is hereby appropriated from the Extraordinary Performance Dividend Account to the board without regard to fiscal years. Whenever the board determines that there are sufficient funds in the Extraordinary Dividend Account, the board shall apply that portion of those funds deemed prudent by the board to any payments authorized by this section.

(d) The board shall inform each recipient of benefits under subdivision (b) that the payments are not cumulative, not part of the base retirement allowance, and

may be available only as a result of extraordinary investment returns to the system."

c. The Purchasing Power Protection Allowance (PPPA) Benefit

This program was introduced in Government Code Section 20178 and 21337.

Stats. 1991, Ch. 83, added Section 20178 to the Government Code

"20178. (a) Notwithstanding any other provision of this part, any member of this system who is paid his or her accumulated contributions shall receive the sum of all accumulated contributions credited to his or her account. The accumulated contributions shall include: (1) the interest which had been credited to the member's account prior to the effective date of this section; plus (2) the contributions and interest which had been credited after the effective date of this section at an interest rate of 6 percent annually compounded.

(b) The interest amount which would have been otherwise credited to the member's account on or after the effective date of this section, but for the return of the member's accumulated contributions, shall be transferred to the account established by the board under Section 21337 to fund the purchasing power protection allowance."

Statutes 1991, Chapter 83, repealed Section 21235

Stats. 1991, Ch. 83, added Section 21337 to the Government Code

SEC 36, Section 21337 is added to the Government Code, to read:

"21337. (a) On an annual basis, the board shall transfer the lesser of: (1) the amount necessary to increase all monthly allowances paid by the system to 75 percent of the purchasing power of the initial monthly allowances; or (2) up to 1.1 percent of the net earnings on member contributions, as determined by Section 20178, to a supplemental account.

(b) The funds so transferred to the supplemental account shall be utilized to increase all monthly allowances paid by the system up to a maximum of 75 percent of the purchasing power, as determined by the actuary, of the initial monthly allowances that were received by every retired person or survivor or beneficiary of a State, school or local member or retired person who was eligible to receive any allowance at the end of each fiscal year. Funds remaining in the account after the payment of benefits under this section shall be transferred to the employer accounts."

Statutes 1991, Chapter 83, repealed Section 21236

Stats. 2000, Ch. 483, amended Sections 20178 and 21337 to exclude contracting agency members, and added Section 21337.1 to the Government Code

"21337.1. (a) As of January 1, 2001, and annually thereafter, all monthly allowances paid by the system to retirees of contracting public agencies, and to survivors and beneficiaries of members and retirees of those agencies, shall be increased to 80 percent of the purchasing power of the initial monthly allowance as determined by the board.

(b) Notwithstanding subdivision (a), retirees of contracting public agencies, and survivors and beneficiaries of members and retirees of those agencies, who receive a monthly allowance payable by this system shall also receive, on or after January 1, 2001, a one-time lump-sum payment in an amount equal to the difference, if any, between the purchasing power protection allowance paid between January 1, 2000, and December 31, 2000, and the purchasing power protection allowance that would have been payable if this section had been operative during that period.

(c) The cost of the increase in allowances paid pursuant to subdivisions (a) and (b) shall be paid from the same assets of the employer used in the determination of each employer contribution rate for each membership classification under which service was credited that affects the allowance calculation of the retirees, survivors, or beneficiaries."

6. Survey of COLA Programs in Public Systems

A copy of Part V of the "2004 Comparative Study of Major Public Employee Retirement Systems" as prepared by the State of Wisconsin Retirement Research Committee can be found at the end of this COLA report. Special thanks to William Ford, Senior Staff Attorney for permission to reprint their report.

The majority of PERS in this study enacted some type of automatic post-retirement adjustment plan during the 1970's and 1980's. Most of these "COLA plans" are based upon changes in the CPI, with some type of annual limit to control costs. Some of these COLA plans are pre-funded during the working career, while others are not. The small number of changes in COLA plans in the last two years reflect less concern with inflation, and may best be described as

"fine tuning". Actuarial funding of the COLA plans presumably is a major problem for some of the PERS.

The 2004 study reflects that most states have now reacted to the Michigan-Davis Supreme Court Case, and have made necessary changes to state income tax laws to comply. Where the majority of PERS in the studies before 1989 were exempt from state taxes, the majority are now partially or totally subject to state income taxes. Some of these changes are being challenged in court. In total, the changes in state and federal laws relative to the taxation of pension and social security benefits may well affect the future adequacy of retiree income.

A copy of the full study can be found at:
<http://www.legis.state.wi.us/lc/jlc03/02wrsreport.pdf>

NOTE: All section references are to the Government Code.

**2004 COMPARATIVE STUDY OF MAJOR
PUBLIC EMPLOYEE RETIREMENT SYSTEMS**

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